Our carbon accounting primer explains the main methodologies for the measurement of financed emissions in the asset management industry. In this report, we calculate the weighted average carbon intensity (WACI) and economic emissions intensity (EEI) of our clients' combined portfolios. We also report on the progress towards achieving our emissions-related performance target for 2025, as committed at the end of 2021, and disclose the carbon emissions from our own operations for the first time.

Terminology

Financed emissions, also referred to as the absolute carbon footprint, refer to the absolute greenhouse gas (GHG) emissions "owned" or financed by an asset manager or specific portfolios under management, calculated by aggregating the attributable GHG emissions of each portfolio constituent.

Economic emissions intensity (EEI), also referred to as the relative carbon footprint or financed emissions to value invested, calculates an investment portfolio's financed emissions per US$ million invested (or other currency). In doing so, it allows for a like-for-like comparison of portfolios of different sizes.

Weighted average carbon intensity (WACI) aggregates the GHG emissions per US$ million of revenue (or other currency) generated by a portfolio's constituent holdings. It can be thought of as an efficiency measure.

Portfolio carbon footprint

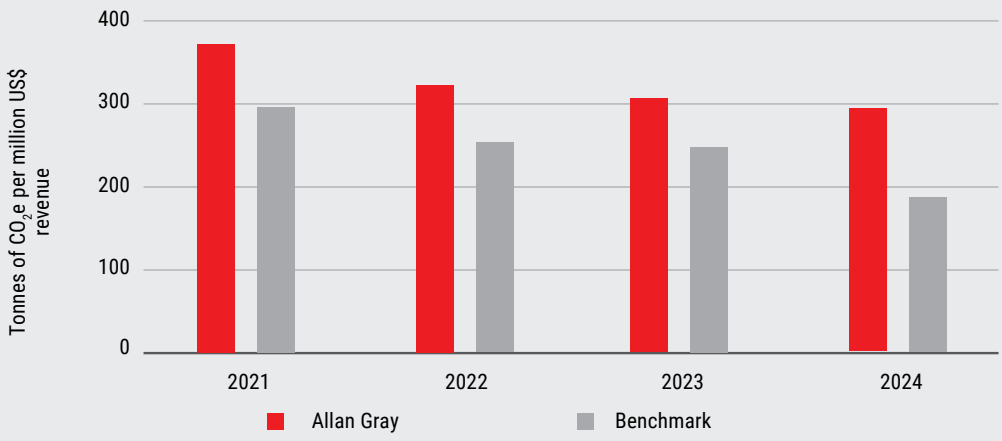
Figure 1 reflects the WACI of the portfolio of local equities across all South African mandates, compared to that of the FTSE/JSE Capped Shareholder Weighted All Share Index (the benchmark) as at year-end over the past four years.

In 2024, the portfolio's carbon intensity declined marginally from the previous year but remained ahead of that of the benchmark index.

This does not contradict our approach; rather, it reflects the fact that we do not limit exposure to high emitters, as we do not believe that divesting from fossil fuels and high-emitting stocks is a solution to climate change.

We accompany our investments in high emitters with detailed analyses of their historical emissions and decarbonisation strategies, among other factors, to ensure critical thinking around emission reduction.

Figure 1: Weighted average carbon intensity[1]



1. Previously reported figures have been updated to reflect restatements and delayed emissions disclosure. Emissions data is sourced from Bloomberg.

The backward-looking nature of the WACI does not capture the portfolio's exposure to companies where the environmental position is expected to improve over time. We avoid divestment to achieve low-carbon portfolios over the short term.

As in previous years, the portfolio's WACI is driven by overweight positions in some of the outliers from a carbon-intensity perspective, as shown in **Figure 2**: Sasol, South32, Sappi, African Rainbow Minerals and Merafe Resources.

Sasol makes an outsized contribution (31%). As discussed in Annexure 4 of our 2023 Stewardship Report, we engage management on a regular basis to discuss the responsible decarbonisation of the business and monitor progress, while recognising the critical role the company plays in the South African economy.

The environmental impact of platinum group metals (PGMs) companies, such as African Rainbow Minerals, is significant but should be weighed against the important role that PGMs play in reducing airborne pollutants from internal combustion engines and the fact that they are essential in the development of a hydrogen economy. Similarly, many of the commodities in South32's portfolio will play a critical role in the transition to a low-carbon economy.

Sappi has made firm commitments around emission reduction with target approval by the Science Based Targets initiative (SBTi) achieved in 2022. Separately, one should bear in mind that its emissions do not reflect the carbon sequestration provided by its plantations.

Merafe Resources is one of the lowest-cost ferrochrome producers in the world. While an energy-intensive business, it has committed to reduce total emissions by 15% by 2026 and 50% by 2035 from 2019 levels. While our clients have very limited exposure to the company, it features prominently as a result of its high emissions per unit of revenue.

Sasol is the single largest contributor to the benchmark's WACI as well, as shown in **Figure 3**. High-emitting miners Harmony Gold, Anglo American, Gold Fields and Impala Platinum all make disproportionate contributions to the benchmark's carbon intensity in relation to their respective benchmark weights.

Figure 2: Contributors to portfolio carbon intensity

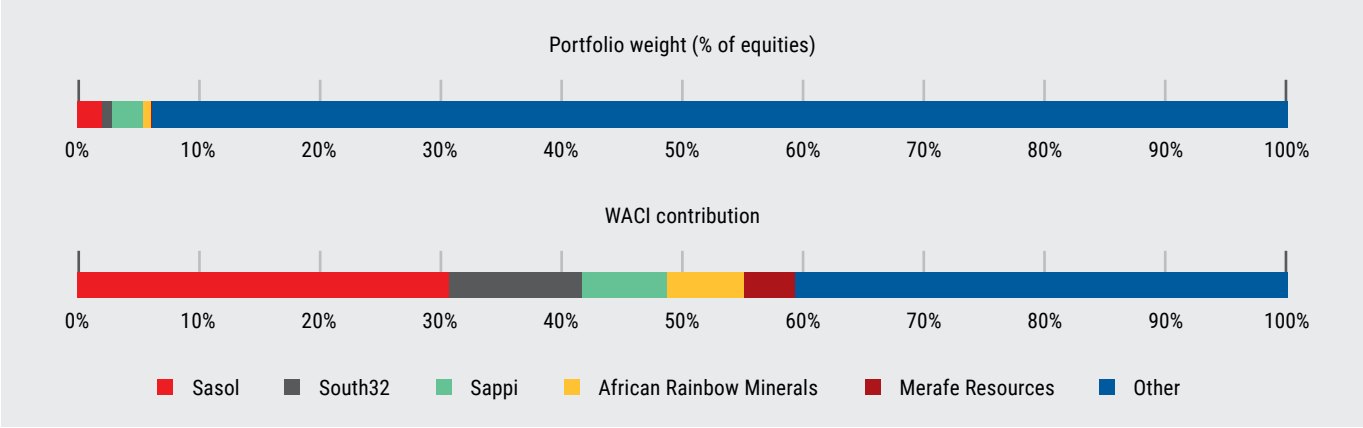
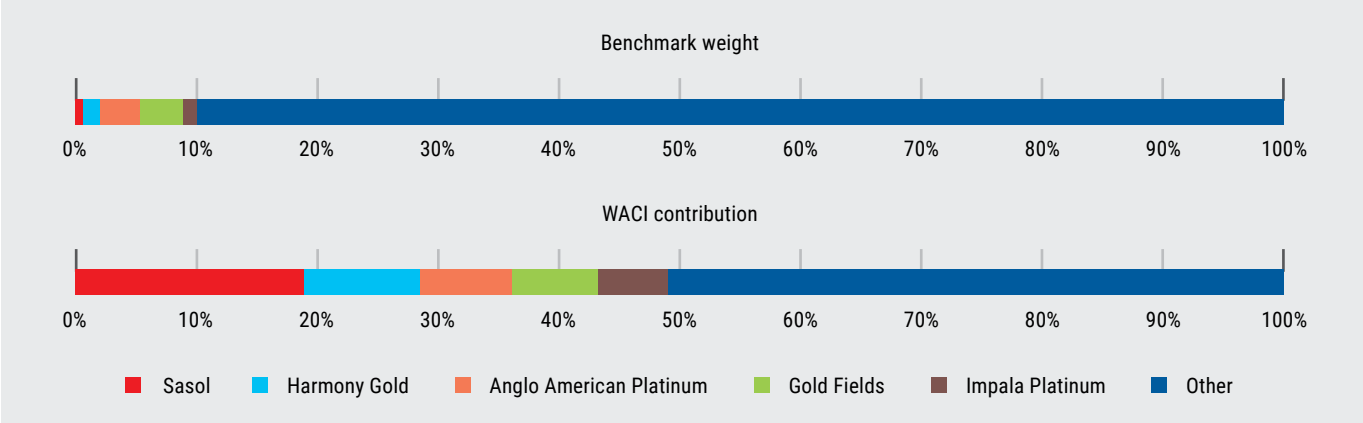


Figure 3: Contributors to benchmark carbon intensity



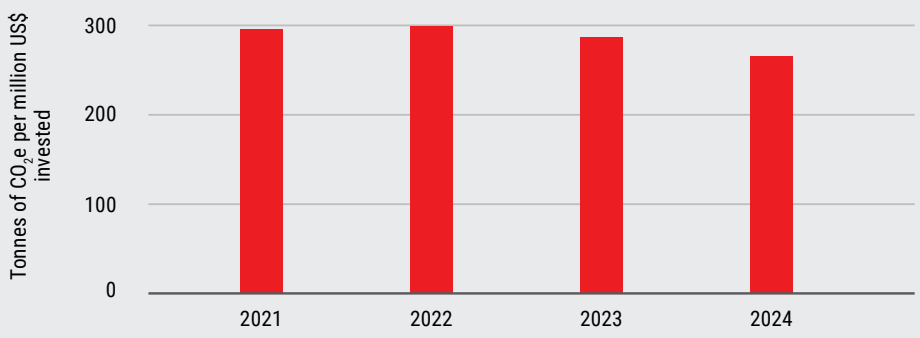
The carbon footprint of the portfolio of local equities and corporate bonds held across all South African mandates, as measured by the EEI prescribed by the Partnership for Carbon Accounting Financials, is shown in **Figure 4.** A gradual decline was observed over the past three years. We report on the portfolio's carbon footprint per million US dollars, which ensures like-for-like comparability with a wider range of managers. This highlights another challenge of carbon reporting: Many asset managers report in their local currencies, hindering comparability.

Performance target

In a drive to greater self-accountability and transparency with our clients, we set out a selection of our future ESG engagement and performance targets in 2021. Under our climate change performance target, we committed to engage with investee companies to set science-based greenhouse gas emission reduction targets, with the objective that 30% of the financed emissions of Allan Gray's top 40 local equity holdings must have committed to a science-based target by 2025, preferably verified by the SBTi, and if not, on an explain basis. Our reason for this was twofold: 1) to keep the focus on real-world emission reduction rather than investment portfolio-level targets, which are influenced by various factors and, in our opinion, have limited value, as discussed in our carbon accounting primer, and 2) to use the financed emissions measure to maintain a focus on the most material emitters and positions, where management's thinking on suitability and adaptability in a changing world is important.

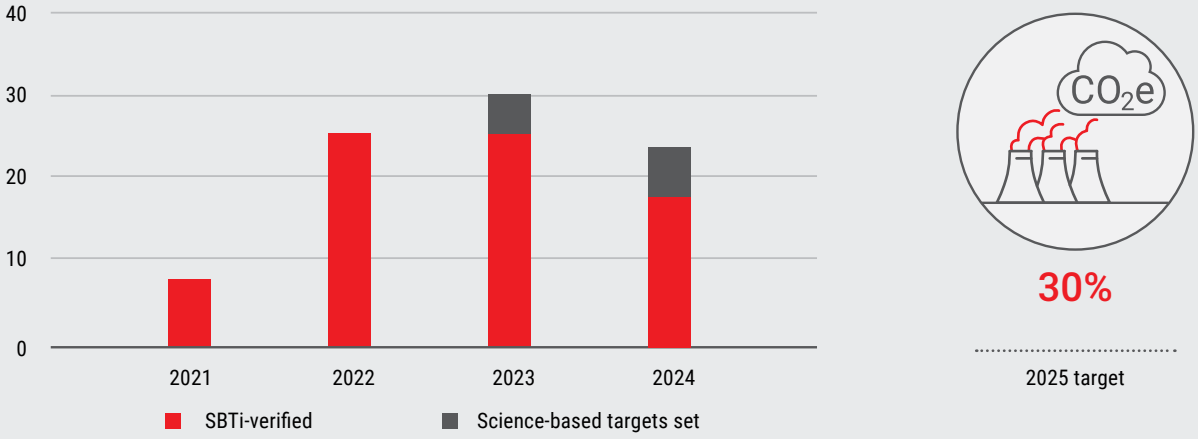
In **Figure 5**, we reflect our progress towards achieving this objective as at end-2024, indicating the percentage of the top 40's financed emissions where the investee company had its net-zero commitment verified by

Figure 4: Portfolio economic emissions intensity[2]



2. Previously reported figures have been updated to reflect restatements and delayed emissions disclosure. Emissions data is sourced from Bloomberg.

Figure 5: Performance target update[3, 4]



3. Based on SBTi and Bloomberg data.
4. Previously reported figures have been updated to reflect restatements, delayed emissions disclosure and methodology changes.

the SBTi or publicly claims a science-based approach to target-setting. Importantly, the quantum of financed emissions under science-based targets has remained unchanged from 2023. However, increased exposure to Sasol explains a decline in the percentage of financed emissions under science-based targets from 30% in 2023 to 24% as at the end of 2024. We included companies that cannot be verified owing to shortcomings of the SBTi's methodologies, but excluded Sasol in light of its significant emissions despite its ambitious climate commitments.

During the year, we engaged with a number of high emitters to discuss their emission reduction targets. Many, particularly in the mining sector, voiced constraints with certain external verification providers over what they perceive as an overly rigid pathway approval process, shifting goalposts and a lack of recognition of industry-specific challenges. Additionally, companies unable to apply existing SBTi methodologies, such as diversified miners, continue to face significant hurdles in setting and validating their targets. We will continue to encourage responsible decarbonisation through a science-based approach that recognises the regional context.

Operational emissions

In line with our pursuit of improvements in our process and disclosure over time, we are publishing Allan Gray's operational emissions for the first time. **Table 1** shows the scope 1, 2 and 3 emissions of our South African operations for 2024, based on the GHG Protocol classifications. Scope 1 and 2 emissions reflect fossil fuel combustion and electricity use in our offices, while scope 3 emissions are limited to those from business-related air travel only – our largest upstream scope 3 category. While our emissions are relatively small as a result of the nature of our business and thoughtful design of our facilities, we remain mindful of our impact on the environment and are always looking for ways to minimise our business's ecological footprint.

Table 1: Greenhouse gas emissions[5, 6]

	Tonnes of CO_2e 2024
Scope 1	89
Scope 2	3 767
Scope 1 and 2	3 856
Scope 3	1 017
TOTAL	4 873

3.5 tCO_2e

Total per full-time employee

5. Operational emissions are based on our own calculations and are not externally assured.
6. Scope 3 emissions reflect only those relating to air travel.